

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 DODE-00

PA-01 PRS-01 L-03 FEA-01 NSC-05 SS-15 STR-04

CEA-01 H-01 /098 W

-----072405 062116Z /62

R 061444Z JUL 77

FM AMEMBASSY VICTORIA

TO SECSTATE WASH DC 456

INFO AMEMBASSY ANTANANARIVO

AMEMBASSY DAR ES SALAAM

AMEMBASSY LONDON

AMEMBASSY NAIROBI

AMEMBASSY PORT LOUIS

STATE

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E.O. 11652: N/A

TAGS: ECON, SE

SUBJECT: SEYCHELLES ECONOMIC SCENE ONE MONTH AFTER COUP D'ETAT

SUMMARY: ASIDE FROM SHARP DECLINE IN NUMBER OF TOURIST VISITORS, SEYCHELLES' FRAGILE ECONOMY APPEARS THUS FAR TO HAVE WEATHERED JUNE 5 COUP D'ETAT WITH LESS ECONOMIC DISLOCATION THAN MIGHT HAVE BEEN EXPECTED. INITIAL OUTFLOW OF CAPITAL HAS SLOWED TO NEAR NORMAL AMOUNTS WHICH ARE REPORTEDLY PRESENTLY BEING OFFSET BY OVERSEAS PAYMENTS TO FINANCE ONGOING PROJECTS.

GOVERNMENT IS CONCERNED WITH NEED TO REASSURE PROSPECTIVE FOREIGN INVESTORS, MANY OF WHOM ARE NOW ADOPTING WAIT AND SEE APPROACH. WHILE PANIC HAS BEEN AVERTED, CONFIDENCE HAS YET TO BE FULLY RESTORED. END OF SUMMARY.

1. MOST DRAMATIC AND IMMEDIATE ECONOMIC EFFECT OF JUNE 5 COUP

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IN SEYCHELLES HAS BEEN SHARP DECLINE IN NUMBER OF TOURIST VISITORS. SEYCHELLES 2000 HOTEL BEDS HAD BEEN VIRTUALLY FULLY BOOKED THROUGHOUT THE FIRST 5 MONTHS OF 1977 AND GOVERNMENT WAS EXPECTING OVERALL 40 PERCENT INCREASE IN TOURISTS TO A TOTAL OF 60,000 THIS YEAR. ACCORDING HOTELIERS, IN FIRST 2 WEEKS AFTER COUP, THERE WERE 1,500 CANCELLATIONS AND "NO SHOWS" AN RECENT SAMPLING INDICATES ONLY SLIGHT IMPROVEMENT. FIVE

MAJOR HOTELS PRESENTLY HAVE OCCUPANCY RATES IN RANGE OF 25-40 PERCENT. REAL TEST OF IMPACT OF COUP ON TOURISM SHOULD COME IN PEAK SEASON OF AUGUST/SEPTEMBER. SINCE REVENUE FROM TOURISM IS, BY FAR, LARGEST FOREIGN EXCHANGE EARNER AND INDUSTRY IS SECOND LEADING EMPLOYER (AFTER PUBLIC SECTOR), SUSTAINED DOWNTURN WOULD HAVE VERY SERIOUS EFFECTS ON ENTIRE ECONOMY.

2. ALTHOUGH NEW GOVERNMENT HAS INDICATED IT INTENDS TO GRADUALLY DE-EMPHASIZE TOURISM WHILE PROMOTING AGRICULTURE AND COMMERCIAL FISHING, IT RECOGNIZES PRESENT CRUCIAL ROLE TOURISM PLAYS IN ECONOMIC LIFE OF COUNTRY. PRESIDENT RENE TOLD FOREIGN JOURNALISTS SHORTLY AFTER COUP THAT VISITORS FROM SOUTH AFRICA WOULD CONTINUE TO BE WELCOMED. IN ADDITION, WE HAVE BEEN INFORMED THAT PROMOTIONAL CAMPAIGNS HAVE BEEN LAUNCHED IN PAST WEEK IN SOUTH AFRICA AND RHODESIA. NEWLY APPOINTED TOURISM OFFICER STEPHANIE SAWYER WAS DISPATCHED TO EUROPE WITHIN DAYS OF COUP TO ASSURE TOUR OPERATORS THAT ALL WAS WELL.

3. A MAJOR GOVERNMENTAL CONCERN AT THE MOMENT IS FUTURE OF TWO 400 BED HOTELS SCHEDULED TO BE BUILT BY SHERIDAN AN HYATT. ACCORDING PRESIDENT RENE, BOTH COMPANIES HAVE PRIVATELY ASSURED HIM THEY INTEND TO CONTINUE WITH PROJECTS WHICH TOGETHER WILL COST 25-30 MILLION DOLLARS AND GUARANTEE THREE YEARS OF FULL EMPLOYMENT FOR IMPORTANT CONSTRUCTION INDUSTRY. LOCAL ARCHITECT HAS TOLD EMBASSY THAT REPRESENTATIVES FROM HYATT WILL ARRIVE IN SEYCHELLES JULY 10 FOR FIRST-HAND LIMITED OFFICIAL USE

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APPRAISAL OF LOCAL SITUATION. HE OFFERED OPINION THAT PLANNING AND FINANCING FOR BOTH HOTELS (AND 10 MILLION DOLLAR WEST GERMAN DEVELOPMENT OF NORTH ISLAND) WERE IN VERY ADVANCED STATE AND PROJECTS WOULD GO AHEAD. IN ADDITION, AS PREVIOUSLY REPORTED, INTERNATIONAL OIL CONSORTIUM, WHICH INCLUDES AMOCO AS 20 PERCENT PARTICIPANT, HAS SIGNED EXPLORATION AGREEMENT WITH NEW GOVERNMENT. ON NEGATIVE SIDE, EMBASSY HAS HEARD OF MANY MODEST DEVELOPMENT PROJECTS (E.G. LIGHT MANUFACTURING CONCERNS, GUEST HOUSES, RETIREMENT COMPLEXES) WHICH HAVE BEEN SHELVED OR CANCELLED SINCE COUP. THESE CANCELLATIONS HAVE RESULTED IN CONSIDERABLE SLACK IN BUILDING SECTOR.

4. ON FINANCIAL SIDE, BANKERS ESTIMATE THAT APPROXIMATELY U.S. DOLS. 1.5 MILLION LEFT EXCHANGE CONTROL FREE SEYCHELLES IN FIRST 2 DAYS AFTER LOCAL BANKS REOPENED FOLLOWING COUP. SINCE INDIAN AND CHINESE SHOPKEEPERS ROUTINELY EXPORT MOST OF THEIR PROFITS ON MONTHLY BASIS, BULK OF OUTFLOW REPORTEDLY ORIGINATED WITH SMALL DEPOSITORS. AFTER INITIAL SHOCK, HOWEVER, OUTFLOWS WERE FULLY OFFSET BY INFUSIONS OF CAPITAL TO FINANCE ONGOING PROJECTS THUS OBTAINING, FOR TIME BEING AT LEAST, NEED TO IMPOSE EXCHANGE CONTROLS. GUY MOREL, WHO IS PERMANENT SECRETARY FOR

FINANCE, IN PRESIDENT'S OFFICE, SAID EXCHANGE CONTROLS WOULD BE "LAST RESORT." ON OTHER HAND, MINISTER OF EDUCATION AND CULTURE HODOUL, WHO WAS RINGLEADER IN COUP AND APPEARS TO BE INVOLVED IN ALL DECISION MAKING, TOLD VISITING REPORTER IMPOSITION OF EXCHANGE CONTROLS AND POSSIBLE REVALUATION OF SEYCHELLES RUPEE WOULD BOTH BE CONSIDERED IN FUTURE.

5. COMMENT: CONSIDERING FACT THAT MANCHAM'S AVOWEDLY FREE ENTERPRISE GOVERNMENT WAS OVERTHROWN BY GROUP WHOSE ECONOMIC VIEWS RANGE LEFTWARD FROM MODERATE SOCIALIST, INITIAL ECONOMIC IMPACT OF JUNE 5 COUP HAS BEEN RELATIVELY MILD. PRESIDENT RENE'S REASSURING STATEMENTS IN POST-COUP NATIONAL SPEECHES CERTAINLY HAVE BEEN MAJOR FACTOR IN AVERTING PANIC. AT SAME LIMITED OFFICIAL USE

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TIME, COURSE NEW TEAM OF ECONOMIC PLANNERS WILL CHART REMAINS ILL-DEFINED. SINCE SEYCHELLES ECONOMY IS PRESENTLY DEPENDENT ON CONTINUING FOREIGN INVESTMENT AND TOURISM, HIGH PRIORITY TASK OF NEW GOVERNMENT WILL BE TO RESTORE INTERNATIONAL CONFIDENCE. MAINTENANCE OF PRESENT POLITICAL CALM IS OBVIOUSLY ESSENTIAL. BETTER INDICATION OF LONG-RANGE ECONOMIC IMPACT OF COUP SHOULD BE DISCERNIBLE IN 3-4 MONTHS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INVESTMENT CLIMATE, ECONOMIC REPORTS, CAPITAL FLOWS
Control Number: n/a
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977VICTOR00400
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770240-0194
Format: TEL
From: VICTORIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770785/aaaacwkd.tel
Line Count: 144
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 0e623570-c288-dd11-92da-001cc4696bcc
Office: ACTION AF
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
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Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1945625
Secure: OPEN
Status: NATIVE
Subject: SEYCHELLES ECONOMIC SCENE ONE MONTH AFTER COUP D'ETAT SUMMARY: ASIDE FROM SHARP DECLINE IN NUMBER OF TOURIST VISITORS, SEYCHELLES' FRAGILE ECONOMY APPEARS THUS FAR TO HA
TAGS: ECON, SE
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/0e623570-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009